

Message Text

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SUBJ: GOI TO RESTRICT FOREIGN INVESTMENT IN
CONSTRUCTION.

1. AFTER MEETING WITH PRESIDENT SUHARTO, BARLI HALIM, CHAIRMAN OF THE CAPITAL INVESTMENT COORDINATING BOARD, ISSUED PRESS STATEMENT JULY1, 1974 OUTLINING GUIDELINES SUHARTO GAVE HIM FOR FUTURE POLICY RESTRICTING FOREIGN CAPITAL INVESTMENT IN CONSTRUCTION INDUSTRY. ENGLISH LANGUAGE PRESS CARRIED BADLY GARBLED REPORTS ON JULY 2, AND APPARENTLY EVEN RESPONSIBLE GOI OFFICIALS ARE NOT CERTAIN EXACT MEANING OF GUIDELINES NOR HOW THEY WILL BE IMPLEMENTED. EMBASSY PIECED TOGETHER FOLLOWING OUTLINE FROM INDONESIAN LANGUAGE PRESS ARTICLES AND LOCAL CONTRACT:

A. CONSTRUCTION COMPANIES: NEW FOREIGN INVESTMENTS IN INDONESIAN CONSTRUCTION COMPANIES WILL BE PROHIBITED. EXISTING JOINT VENTURE COMPANIES MUST SHIFT TO MAJORITY 51-0/0 INDONESIAN OWNERSHIP, BUT NO DEADLINE HAS YET BEEN SET FOR COMPLIANCE WITH THIS REQUIREMENT.

B. CONSTRUCTION CONTRACTS WILL BE GRANTED EXCLUSIVELY TO "INDONESIAN" FIRMS (PRESUMABLY INCLUDING

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SIVELY TO "INDONESIAN" FIRMS (PRESUMABLY INCLUDING

EXISTING JOINT VENTURES). HOWEVER, GOI RECOGNIZES THAT SITUATIONS WILL ARISE WHERE INDONESIA LACKS REQUIRED TECHNICAL EXPERTISE IN CERTAIN AREAS OF CONSTRUCTION, I.E. HARBORS, DAMS, AIRPORTS, ETC. IN SUCH CASES FOREIGN FIRMS WILL BE PERMITTED TO WORK IN SPECIAL "COOPERATION" ARRANGEMENTS WITH INDONESIAN FIRMS. THE PURPOSE OF THIS EXCEPTION IS TO AVOID RETARDING NEEDED CONSTRUCTION AND TO FACILITATE INDONESIAN ACQUISITION OF EXPERTISE REQUIRED TO EVENTUALLY COMPLETELY SUPPLANT FOREIGN SUB-CONTRACTORS.

C. CONSTRUCTION INVESTMENTS: FOREIGN INVESTMENT IN REAL ESTATE CONSTRUCTION WILL BE STOPPED; HOWEVER, AN EXCEPTION WILL BE MADE FOR INVESTMENTS IN LARGE "INTERNATIONAL" HOTELS (THOSE EXCEEDING 50 ROOMS) WHICH REQUIRE LARGE AMOUNTS OF CAPITAL. INVESTMENTS IN "ECONOMY CLASS" HOTELS (LESS THAN 50 ROOMS) WILL BE OPEN EXCLUSIVELY TO DOMESTIC INVESTMENT.

2. COMMENT: IT WILL BE IMPORTANT TO FOLLOW SPECIFIC RULINGS BY INVESTMENT COORDINATING BOARD TO DETERMINE LENGTH OF TIME PRESENT FOREIGN-OWNED FIRMS WILL HAVE TO COMPLY WITH NEW OWNERSHIP REQUIREMENTS, AND HOW GOI PLANS IMPLEMENT OTHER RESTRICTIONS.

3. CLEARLY THESE RESTRICTIONS FALL INTO CONTINUING PATTERN OF GOI EFFORTS SINCE JANUARY 15 RIOTS TO LIMIT FOREIGN INVOLVEMENT IN EXPANDING LIST SECTORS INDONESIAN ECONOMY, BUT LEAVING UNCERTAIN HOW AND WHETHER RESTRICTIONS WILL BE ENFORCED.
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